CAMPO SEWER AND WATER GOVERNANCE STUDY

Prepared for:

COUNTY OF SAN DIEGO
DEPARTMENT OF PUBLIC WORKS

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EXECUTIVE SUMMARY

BOARD OF SUPERVISORS DIRECTIVE

On September 13, 2004, the San Diego County Board of Supervisors approved fourteen recommendations involving the provision of water and sewer service to Campo Hills and the Campo Hills Service Area. Recommendation No.13 directed the Chief Administrative Officer to return with a feasibility report of governance alternatives for long-term management of water and wastewater treatment facilities in the Campo community.

CURRENT OPERATION

In June 1950, the United States government transferred real property assets to the County of San Diego from Camp Lockett, which was formerly used by the Army in World War II. Included within this transfer was a public water supply system and sewerage treatment and disposal facility. The County has operated both systems for over 55 years in support of County operations in the Campo area (Departments of Probation, Parks and Recreation, Public Works, Sheriff and General Services). There are also approximately 45 private customers who depend on these services for domestic and commercial uses. The sewage treatment plant will also be serving the Campo Hills project. This development will ultimately include 222 dwelling units and a small commercial area.

The existing organizational structure for providing sewer and water services to portions of Campo is unique to the region. The County of San Diego uses their general government powers rather than a County Sanitation District or other comparable method. As governing boards, the County Board of Supervisors does oversee seven County Sanitation Districts in other portions of the regions-all dependent special districts formed in accordance with the State Health and Safety Code. Unincorporated residents almost exclusively receive their water service from independent special districts or individual wells and not from the County of San Diego.

The Campo arrangement is the result of specific historical circumstances, and has been in practice for so many years that the County's direct provision of services has become invisible. Many Campo residents commonly believe that a County Sanitation District is currently providing sewer service. A recently published community character statement of the Campo/Lake Morena Planning Group expresses the need to, "Discourage the expansion of the Campo Service Area of the ***County of San Diego Sanitation District*** for private development"(emphasis added).

The location, intensity, quality and character of growth are fundamental issues to residents of Campo. The sewer and water provider(s) will play a pivotal role in the community's future. The County of San Diego, which has decision-making authority for land use in Campo, has additional concerns, including the possible long-term continuation of an operating subsidy, the unknown consequences of an aging conveyance system and a vested need to ensure that water and sewer services are readily available for County facilities.

Ranking of Alternative Government Structure Options

The following criteria were developed to evaluate governance options:

- Ease of Formation
- Governing Board Options
- Ability to Provide Additional Services
- Experience
- Ability to Coordinate Growth
- Fiscal
- Acceptance by Regulatory Agencies
- County Liability
- Ability to Address Future System Needs
- Community Acceptance

A summary represents an evaluation and ranking of the various options provide the following results:

Rank	Option
1	County Sanitation District
2	Status Quo
3	Private Ownership or Mutual Water Company
4	Independent Special District
5	Use of CSA No. 112

Possible Advantages of County Sanitation District

A number of advantages exist to forming a County Sanitation District to provide water and sewer service in Campo rather than continuing the status quo:

- A County Sanitation District has the legal authority to provide both water and sewer services.
- As a dependent district, the County Board of Supervisors could continue their historical oversight function as the governing board.
- The County would have the ability to protect their own interests in ensuring services for County Departments operating in Campo.
- Given General Plan 2020 and several development proposals in Campo, it is important the County Board of Supervisors continue to be responsible for both land use and public service decisions.
- The Department of Public Works staff has extensive experience in operating sewer conveyance and treatment systems by the use of a County Sanitation District.
- Formation of a County Sanitation District could limit financial exposure to the General Fund.
- According to initial discussions with County Counsel, a County Sanitation District may reduce liability from the existing arrangement of the County providing direct service.
- This option may be preferable to an independent special district from LAFCO's perspective.

Advantages and Impediments to Private Ownership

The ownership, operation and maintenance of community sewer systems are exclusively provided by public agencies in San Diego County. Although privatization of sewer systems may be found in various portions of the nation and other portions of state, the San Diego Regional Water Quality Control Board policies require that community systems (five or more dwelling units) must be publicly owned.

Private ownership of community water systems either through investor-owned companies regulated by the California Public Utilities Company (PUC) or mutual water companies is possible. The major advantage to the County of having a private water company is that under a private option, the County has no other financial obligation other than payment for water use at County facilities.

Fragmenting the delivery of sewer and water services may be inefficient. It may also create difficulties for implementing the County's land use objectives for the community because the interests of public and private sectors may not coincide. A number of impediments exist to privatization of water service:

- An investor-owned company requires approval of the State's Public Utility Commission (PUC).
- The County may not be sufficiently represented to assure financial stability.
- It is possible the problems of serving the area with such a limited customer base, an aging system, less than a full cost recovery rate structure and inadequate financial reserves may not be attractive to an investor-owned company.
- It is unclear if current customers would want to assume responsibility for forming a mutual water company.

CONCLUSIONS

1. The County's existing role directly providing water and sewer services to portions of Campo since the acquisition of the former Camp Lockett's sewer and water infrastructure in 1950 is unique within the San Diego region
2. Members of the public largely misunderstand the County's method of providing these two essential services.
3. The County has a vested interest in maintaining adequate service because of the presence of county departments in Campo.
4. The County is currently subsidizing the costs of serving 45 residential and commercial water and sewer customers
5. Both the Campo service area water and sewer systems are under-funded and lack adequate operation and capital improvement reserves.
6. Growth (and the role that public infrastructure plays) will continue to be a major issue in Campo.
7. Two projects (A Children's Village and Star Ranch) are being proposed in Campo. Both developments are considering construction of new water and sewer systems. It is unknown if either project will request formation of a special district or ask the County to provide sewer and/or water services in the same manner as Campo Hills.

8. The Campo Hills/Campo Service Area has a number of existing and potential problems (need for a rate subsidy, uncertainty about the condition of infrastructure, controversy regarding expansion to serve possible future development) that will be present regardless if the County continues in its' current capacity or another entity becomes responsible for providing sewer and water service.
9. Four general options exist: Status Quo, Expansion of Latent Powers for County Service Area 112, Formation of an Independent Special District, Privatization of Water Service and Formation of a Dependent Special District.
10. Sale of the service area water system to a investor-owned utility or the establishment of an independent district would likely require the County to make a significant investment in upgrading the water system and/or providing a substantial financial contribution to make the sale feasible or the transfer attractive to the local community.
11. The San Diego Regional Water Quality Control Board requires sewer treatment plants be publicly owned, therefore privatization of this service is not possible.
12. The formation of either an Independent Special District or Privatization of Water Services may not be feasible at this time due to lack of a fully implemented rate structure based on full cost recover from all users, lack of operation and capital improvement reserves, unknown system operational condition, and the small size of the system with only questionable growth potential.
13. The formation of a County Sanitation District may be the most feasible of the options and would formalize the operation of the water and wastewater systems with the Board of Supervisor serving as County Sanitation District Directors. This organizational structure could limit the County's general funds liability for system operations and potential claims.
14. Formation of most types of special districts including a County Sanitation District will require the support of residents, due to the protest provisions contained in State law.

RECOMMENDATIONS

1. Prepare an as-built survey of the existing water and sewer system to determine location, condition and need for repair and upgrades.
2. Adjust Campo community water and sewer rates to fiscal stability; achieve full-cost recovery from non-County residential and commercial users; and fund adequate operation and capital improvement reserves, if possible.
3. Confirm that County government would be better served from a liability standpoint by providing water and sewer service through a county sanitation district rather than continuing the status quo.
4. If a full cost recovery rate schedule is implemented, initiate discussions with investor-owned water companies to determine if any interest exists for privatization. Explore if the two mutual water companies in Lake Morena would consider joining with Campo to transfer responsibility to a common private investor-owned water company.
5. Determine if support from Campo residents would be present to operate an independent special district or support formation of a dependent special district.
6. Ensure that any proposed changes from the current institutional arrangement for providing sewer and water service in Campo are consistent with existing County policies and evaluated against the pending General Plan 2020. Any solutions should comprehensively consider both existing and future demand to avoid creating a highly fragmented system of multiple sewer treatment plants and service providers.

OVERVIEW

AUTHORIZATION

On September 13, 2004, the San Diego County Board of Supervisors approved fourteen recommendations involving the provision of water and sewer service to Campo Hills and the Campo Hills Service Area. Recommendation No.13 directed the Chief Administrative Officer to return with a feasibility report of governance alternatives for long-term management of water and wastewater treatment facilities in the Campo community.

STUDY OBJECTIVE

County governments are empowered by the State of California to provide both regional services such as tax collection, and the administration of portions of the justice and social services system as well as direct urban-level services often provided by municipalities and special districts such as law enforcement, fire protection, road maintenance, flood control, parks and recreation. Counties throughout the State of California differ in the type and quality of services they offer based on the needs of residents, availability of financial resources, extent of urbanization and presence/capabilities of other governmental agencies.

The existing organizational structure for providing sewer and water services to portions of Campo is unique to the region. The County of San Diego uses their general government powers rather than a County Sanitation District or other comparable method. As governing boards, the County Board of Supervisors does oversee seven County Sanitation Districts in other portions of the regions-all dependent special districts formed in accordance with the State Health and Safety Code. Unincorporated residents almost exclusively receive their water service from independent special districts or individual wells and not from the County of San Diego.

The Campo arrangement is the result of specific historical circumstances, and has been in practice for so many years that the County's direct provision of services has become invisible. Many Campo residents commonly believe that a County Sanitation District is currently providing sewer service. A recently published community character statement of the Campo/Lake Morena Planning Group expresses the need to, "Discourage the expansion of the Campo Service Area of the ***County of San Diego Sanitation District*** for private development"(emphasis added).

The location, intensity, quality and character of growth are fundamental issues to residents of Campo. The sewer and water provider(s) will play a pivotal role in the community's future. The County of San Diego, which has decision-making authority for land use in Campo, has additional concerns, including the possible long-term continuation of an operating subsidy, the unknown consequences of an aging conveyance system and a vested need to ensure that water and sewer services are readily available for County facilities.

The objective of this study, as identified by the Department of Public Works, is to review potential institutional arrangements to determine if there are other feasible alternatives to continued operation of Campo water and sewer facilities by the County of San Diego.

HISTORICAL CONTEXT

In June 1950, the United States government transferred real property assets to the County of San Diego from Camp Lockett, which was formerly used by the Army in World War II for cavalry training and border defense. Included within this transfer was a public water supply system and sewerage treatment and disposal facility. The County has operated both systems for over 55 years in support of County operations in the Campo area (Departments of Probation, Parks and Recreation, Public Works, Sheriff and General Services).

The County owns approximately 511 acres in the Campo area including portions of the former Camp Lockett. The major County functions on the site are listed below and illustrated on Exhibit 1:

- Probation Rancho del Campo/Rancho del Rayo Juvenile Ranch Facility
- Public Works Campo Sewage Treatment Facility and Sewage System
- Public Works Water Tanks and Water Delivery System
- Public Works Road Station
- Campo Sheriff Station
- Campo Community Center/Ball fields/Senior Center
- General Services Maintenance Station and Employee Housing
- Campo Stone Store Historic Site and Italian Prisoner of War Shrine.

There are approximately 45 private customers who also depend on these services for domestic and commercial uses. Because the sewage treatment plant has excess capacity, it will also be serving the Campo Hills project. This project will ultimately include 222 dwelling units and a small commercial area. Exhibit 2 depicts the location of the two areas, which will be referred to as "Campo Hills" and the "Campo Service Area" within this report.

During the 1980's, Campo Hills was approved as a mobile-home project. On August 2, 1988, the first agreement with the Campo Hills developer provided the County would treat and dispose of sewage generated from the project through the County-owned Campo wastewater treatment plant. The developer was required to make $1.4 million in upgrades to the sewer system. During this time, the County Board of Supervisors also approved a resolution initiating formation of a County Sanitation District. The proposal was, however, abandoned and withdrawn in May 1993.

The County water system has limited amounts of excess capacity to serve the Campo Hills project only for a short-term period for emergencies or scheduled maintenance and repair operations. The County-Campo Hills agreement was amended on June 8, 1995 to provide the County would, in addition to treatment of sewage, also operate the Campo Hills on-site water supply system. The agreement was conditioned to provide that all capital improvement costs associated with water and sewer system operations attributable to Campo Hills would be the responsibility of Campo Hills, LLC.

On January 24, 2001, the County and Campo Hills, LLC entered into a subsequent Agreement for the County to provide water supply and sewage disposal services for Campo Hills. The purposes of the January 2001 Agreement were to:

- Replace the 1995 agreement, which expired on June 20, 2000,
- Coordinate the new expiration date with Tentative Map lien contract expiration date, and

- Provide for an emergency water system interconnection between the on-site Campo Hills water system and the existing County-operated community water system.

In order to provide water supply services to the Campo Hills development, several changes were required for the proposed water production system. The quality of groundwater necessitated construction of a water treatment and uranium reduction facility that would meet Federal safe drinking water standards.

On June 18, 2002, the County Board of Supervisors approved in concept to the conveyance of Camp Lockett to the State of California for the establishment of Camp Lockett State Historic Park. The intent was to designate Camp Lockett on the National Register of Historic Places as a historic district. The County, which owns approximately 511 acres in Campo, identified the potential transfer of the northernmost portion of the County portion (approximately 331 acres) excluding approximately 13 acres to be retained for County functions.

Among the areas to remain under County ownership were water and sewer systems composed of wells, a water storage tank, water distribution pipes, sewer system piping, the sewage treatment plant and sewage setting ponds. State Park officials have indicated they did not wish to assume operation of the water and sewer system due to lack of funding. If the property, which contains wells, water storage tanks, water distribution pipes, sewer system and sewage treatment facility would have been transferred to the State, it would have also become subject to historical building codes and standards which would have made any future facility/site improvements to become more difficult and expensive. Another approximately 167 acres would be retained by the County for future development of the County Probation Department's Rancho del Campo/Rancho del Rayo juvenile ranch facility.

In May 2003, the State of California, Department of Parks and Recreation indicated a continued interest in the transfer of Camp Lockett and suggested adoption of a master plan and phased conveyance of property. Campo residents are very interested in ensuring that any changes to the park would be made consistent with community character. The timing for the transfer of the park to the State of California has not been identified.

On September 22, 2004, the Board of Supervisors adopted the Department of Public Works recommendations that amended agreements with Campo Hills, LLC, retained the services of consultants and authorized the submittal of an application for a Local Governmental Assistance Grant for the development of a groundwater management plan. The following month, two ordinances allowing for the use of county-owned water facilities and establishing fees and charges for the Campo Hills Development and the Campo Service Area were adopted.

The first phase of Camp Hills, which is now a conventional housing tract rather than mobile homes, is nearing completion. KB Home, which is building the development, expects completion of the first phase during Summer 2005. Future residents will pay about $205 a month for sewer and water service, as well as a homeowner's association fee.

PROFILE OF CAMPO

Portions of the following profile have been excerpted from the "Community Character Statement' that the Campo/Lake Morena Planning Group prepared in support of General Plan 2020.

Campo is located approximately 60 miles east of the City of San Diego. The community is regionally accessed from Interstate 8 (Exhibit 3). Three two-lane roads serve the Campo/Lake Morena area (Buckman Springs Road, La Posta Road and Highway 94). Campo is removed from urbanization with residents traveling 20 to 40 miles for everyday goods such as groceries, drugstore goods and convenience services. To a great extent, Campo residents have chosen the community and the associated lifestyle as an alternative to more developed portions of the region.

Campo is within the approximately 90-square mile Mountain Empire Community Planning Area. The Mountain Empire Sub region consists of Campo, Tecate, Potrero, Boulevard, Jacumba, and the remainder of the plan area. Although each area has their own unique identities, the communities share many similar natural characteristics including topography, water resources and environment.

Approximately 50% of the land in the Campo/Lake Morena area is Public Domain, National Forest or other Federally owned property. Campo consists of three country town areas (Campo, Lake Morena and Cameron Corners) all of which are rural in character. Each of these towns is less than one square mile in size. Combined, the three areas are approximately 2% of the Campo/Lake Morena Planning Area.

Campo is a historic town sitting in the western end of the Campo Creek Valley. Campo means field or countryside in Spanish. Campo Creek is a year-round stream and supports an evergreen valley. A large meadow with grazing cattle is flat and extends more than 5 miles to the east and is almost a mile wide. The valley has supported cattle grazing for many years.

At one time, the town of Campo was at the center of Camp Lockett. Campo has a core area of approximately 40 acres including a number of community services including: Volunteer Fire Station, Post Office, Family Medicine & Community Services, Community Center, Feed & Lumber store, Senior Center, Little League Fields, a convenience store, a laundromat, Sheriff's Station, Border Patrol Station, the County Road Maintenance facility and two minimum-security youth facilities).

A number of apartment buildings and single-family residential parcels are located south of the commercial core. Northeast of Campo's town center there are several homes on small parcels and the Campo Hills development.

The San Diego and Arizona Eastern Railway railroad from San Diego through Tecate, Mexico forms the northwest boundary of the Campo country town. The historic Campo Station of the John Spreckel's railroad is part of the original core Campo as is the Pacific Southwest Railroad Museum. On the west side of Campo (also part of the town core) is the historic Old Stone Store, which is now a museum. East of Campo is the Campo Creek Valley and to the south is BLM land and the Mexican Border. The areas immediately outside the country town core are large, undeveloped parcels. The Campo Valley and the approximately 2,200-acre Star Ranch on the north side are used for cattle grazing.

Camp Lockett State Park deserves special consideration in long term planning of land use in areas that will affect the park's viability as both a park and community asset. Residents advocate that future development within Camp Lockett should be consistent with the goals contained in both the Draft Vision Statement and Mission Statement of Camp Lockett State Historic Park as prepared by the California Department of Parks and Recreation and received by the Community Character Ad-hoc Committee.

Profile of Adjacent Communities

Cameron Corners is located at the junction of Highway 94 and Buckman Springs Road, north of Campo. This country town consists of a small commercial center with a residential area consisting of one street.

Lake Morena includes approximately 500 homes located along the southeastern shore of Lake Morena and the John Lyons-Lake Morena County Park. The Cleveland National Forest borders the village on portions of the north and south. Development is clustered within the Lake Morena Village (7 du/ac) and is different from the surrounding ranchlands, which are divided into large parcels. Many inhabitants of Lake Morena Village are part-time residents, retirees or adults that are seeking affordable housing. Lake Morena has two separate private mutual water companies. All homes are served by septic systems. It is anticipated that growth will be limited due to septic problems and the built-out nature of the village core.

General Plan 2020

General Plan 2020, a multi-year project, will update the County's General Plan. The current general plan was last comprehensively reviewed in 1979. According to the County, General Plan 2020 will form a framework into which the unincorporated communities will grow, shaping the future of San Diego County. The anticipated end product is intended to protect the environment, accommodate population growth and link growth to the provision of required facilities and services.

General Plan 2020 will address individual community plans such as Campo/Lake Morena. Key issues identified by County Staff during the update for Campo/Lake Morena include:

- The community is groundwater and septic dependent, with the exception of limited residential at Campo (using Camp Lockett sewer and treatment facility operated by the County).
- A need to reach consensus for the town center planning effort at Cameron Corners.
- Residents support a slow-paced rural growth in the area.
- A fear by residents that Camp Lockett will become an "Old Town" type-park, if it is transferred to the State of California.

The studies conducted by the County, as of the completion of this report, do not envision that the fundamental nature of Campo will significantly change as a result of the adoption of General Plan 2020.

Proposed Projects

Several projects, which are currently outside the Campo Hills / Campo Service Area, are being considered. In August 2004, a Major Use Permit was submitted for A Children's Village, proposing a foster care facility and school. The project, which intends to accommodate 200 children, anticipates using a package sewer treatment plant, which would be limited in capacity size to only serve the school/foster care facility. On-site wells would be the source of water. The applicant for the facility, SVDP, Inc-a related entity of St. Vincent de Paul, has approached the Department of Public Works to provide both sewer and water service in the same manner as the Campo Hills/Campo Service Area.

A second project, Star Ranch, has provided a land use concept to the County, which includes approximately 400 dwelling units and a village center. Although a portion of the units will be situated on large lots and have individual septic systems, the vast majority of the project will require a community sewer system. The initial indication from the project applicant is that Star Ranch will propose a new sewer treatment plant rather than relying on the existing facility in Campo Hills. Consideration is also being given to creating a mutual water company. Project sponsors could potentially request formation of a special district to own, operate and maintain a new sewer plant, manage groundwater resources or provide other necessary services.

Both projects will be evaluated in compliance with the County Board of Supervisor's Policy I-78 that provides restrictions on the use of small treatment plants.

While it is unknown if either project will ultimately be approved by the County, the potential for a fragmented delivery system and institutional system is present.

Current Public Service Providers

As a rural unincorporated community, Campo residents only require limited public services. The County of San Diego supplies a number of general government services to Campo- principally law enforcement, road maintenance, libraries, parks and recreation. Water and sewer service is either provided by the County of San Diego (Campo Hills and the Campo Hills Service Area) or individual wells and septic systems. County Service Area No. 112 (Campo), which is the only special district in the area, supplies fire protection and emergency response to the community. The Mountain Empire Unified School District, which has an elementary school in Campo, provides educational services to students from kindergarten through high school.

EXISTING CAMPO INFRASTRUCTURE

Water

Campo is totally dependent on groundwater resources, as it is beyond the boundaries of the San Diego County Water Authority and the Metropolitan Water District of Southern California; the two agencies that cooperatively provide imported water to the more urbanized portions of San Diego County. Even the more developed country town areas in Campo and Lake Morena, which have water systems, rely on groundwater and the portions of the community around the town cores use individual wells.

The availability of groundwater is a major constraining factor to future growth in Campo. The County of San Diego's Groundwater Ordinance considers the resource to be valuable, finite and yet renewable. A major objective of the Groundwater Ordinance is to ensure that development will not occur in groundwater-dependent areas, unless adequate supplies are available to serve both existing and proposed uses within the affected groundwater basin.

The Federal Government has designated the Campo Creek as a sole source aquifer. The Regional Environmental Protection Agency, because of this designation, will review any Federal financially assisted projects planned for the area to ensure there will be no threat of aquifer contamination or hazards to public health.

Sewer

Areas outside Campo Hills and the Campo Service Area rely on individual septic systems. The existing treatment plant does not currently have excess capacity. A major concern of residents is that an expansion of the sewer treatment plant could provide for growth that may alter community character.

Although portions of the water and sewer treatment systems have been improved in recent years, major pipes serving Campo (excluding Campo Hills) are aging. A significant potential unknown issue surrounds the timing, cost and need for repair and replacement of the infrastructure that was acquired from the federal government in 1950.

Inventory of Water System Assets

There are two independent water supply systems in Campo (with an emergency interconnect). The first system is the original water system constructed as part of Camp Lockett. This system consists of three operational wells, two 350,000-gallon water storage tanks, water transmission/distribution mains and meters.

The second system serves only the residents of the Campo Hills development. As a condition of subdivision map approval, Campo Hills was required to provide the county with a completed and operational water supply production, storage and delivery system conforming to public health standards. The system consists of three wells, two 300 gallon-per-minute filtration plants with an ionization uranium removal unit, and chemical feed system.

Initial efforts to locate a series of three required wells in bedrock that could deliver 144,000 gallons per day to Campo Hills were unsuccessful because of geological conditions. Instead three shallow wells were drilled in alluvial soils with a cumulative production total of 750 gallons per minute.

Due to the shallow characteristics of the Campo Hills wells, and their location within the 100-year flood plain, the California Department of Health-Division of Drinking Water and Environmental Management determined the wells would be subject to the influence of surface waters from Campo Creek. In accordance with the Safe Drinking Water Act, this water supply must be treated and filtered prior to human consumption.

Initial water quality testing of the Campo Hills wells revealed trace amounts of uranium in the water supply. All three wells exceeded the minimum Federal drinking standards. According to the Department of Public Works, it is not uncommon to find traces of uranium resulting from

erosion of naturally occurring deposits. It is thought the extended backcountry drought may have contributed to the problem through increased concentration caused by the lack of dilution from rainfall. To address the problem, Campo Hills has constructed a uranium removal treatment system that will reduce levels to comply with the Federal EPA drinking water standard. Subsequent operational testing by the County's Department of Public Works has confirmed the system meets all Safe Drinking Water Act regulations.

The operation of the Campo Hills water system requires the use of two sole source contracts. The first contract is with Basin Water, a firm that provides for the removal and disposal of uranium using an ion exchange process. Due to the uniqueness and special handling requirements for uranium disposal, the Department of Public Works proposed a long-term contract with Basin Water.

The second contract is with Water Treatment Services, which constructed the Campo Hills water treatment plant, to provide water treatment system operation, maintenance and training services. The cost of the contract is funded by Campo Hills, LLC. DPW intends to have County staff assume operations and maintenance once all required certifications are obtained from the State. A Technical, Managerial and Financial feasibility report and an addendum to the Campo Hills EIR was provided to the California Department of Health Services on June 1, 2004. A permit to operate was issued on October 15, 2004.

Inventory of Sewer System Assets

The sewage system consists of collection, conveyance, treatment and disposal facilities and services. Campo Hills was required to spend approximately $1.4 million in upgrades and repairs. The wastewater treatment plant, which has a permitted discharge capacity of 113,000 gallons per day, offers secondary treatment consisting of a grease interceptor, imhoff tank, trickling filter, secondary clarification, anoxic selector for nutrient removal, sludge drying beds and effluent percolation ponds. The completed modifications did not increase the permitted and discharge capacity of the plant. The plant is currently operating at 25,000 to 35,000 gallons per day. At buildout, Campo Hills will double the number of gallons per day.

EXISTING RATE STRUCTURE

In March 1996 the County Department of Public Works notified all Campo Service Area residents that it had become necessary to bring revenues in line with operating costs. The first rate adjustment occurred in March 1995 and there was a total of five rate increases spread over a five year period for both water and sewer. The last rate increase was in March 1999. Water and sewer rates for Campo have not been adjusted since that time.

The current water rate structure for Campo is a two-tier consumption based rate structure. All users are charged $1.70 per 100 cubic feet of water consumed under 2,000 cubic feet per month. The cost of water increases to $2.55 per 100 cubic feet in excess of 2,000 cubic feet per month.

The current sewer rate structure for Campo consists of a flat monthly charge per user. All customers with ¾" to 1" water meters are charged $16.00 per month. Larger water meters (1 ½" to 2") are charged $28.00 per month. Larger water meters normally serve master metered multi-family or commercial users.

Campo Hills' water system customers on the other hand pay for water on a flat monthly rate of $150 per month and $55 per month for sewer service. Currently they pay the same rates for sewer as Campo Area customers.

OPTIONS FOR PROVIDING SERVICES

Overview

Table 1 offers a summary of the various governmental organizations that are available to provide sewer and water services as well as their provisions to assess fees and charges for service. Appendix A provides details on each organizational structure. As described in the table, a number of special districts are potentially empowered to provide a broad variety of services including water and sewer service.

Two distinct forms of special districts exist. Special districts may be classified as either dependent or independent. An independent district is one that has a publicly elected board of directors other than the Board of Supervisors or City Council. A dependent special district is one whose board of directors is another legislative body, such as a City Council or Board of Supervisors. The two prime forms of dependent special districts are County Sanitation Districts or County Service Areas.

Appendix A provides an excellent summary of information from the San Diego Local Agency Formation Commission's 2002 Procedures Guide that condenses significant portions of the State Government Code including principal acts, the powers potentially available to each form of special district and an explanation of formation/annexation procedures. State law should be consulted, if more detailed information is required.

This section of the report also addresses organizational requirements for private sector options such as a mutual water company or investor-owned water company.

Water Service

Drinking water is generally provided in California through three types of water systems. Water systems are generally owned, operated and maintained by either:

- Public agencies (such as municipalities or local water districts),
- Private, not-for-profit mutual water companies (entities whose shareholders are the landowners served by the water system), or
- Private for-profit corporations.

As noted in Table No.2, the vast majority of the State's population is served by public systems.

Table 2: Water Systems in California*

Estimated Ownership of System Percentage of	Approximate Number of Systems Statewide	Population Served
Public Agency		
Local Water Agencies	8,130	76
Privately Owned		
Private, for-profit water utilities (PUC regulated)	170	23
Private, not-for-profit		
Mutual water companies	400	Less than 1
Total	8,700	

* Excludes fewer than 15 service connections and systems serving mobilehome parks which collectively serve about 2% of the state's population

Most San Diego County residents receive water from public agencies. In addition to municipalities providing water service, there are 33 independent special districts including:

- Thirteen municipal water districts,
- Six irrigation districts,
- Four county water districts,
- Four California water districts,
- Five community services districts, and
- One public utility district.

The composition of San Diego special districts providing water service varies greatly from large jurisdictions such as the Otay Municipal Water District, Valley Center Municipal Water District and the Padre Dam Municipal Water District to small ones such as Canebrake County Water District, Wynola Water District and the Mootamai Municipal Water District.

The profile of San Diego County water districts varies greatly. For example:

- Some districts only serve unincorporated portions of the County, while others also have customers within cities.
- While a number of districts offer services other than water, some focus on a single public service.
- A district's source of water may be imported through an association with the San Diego County Water Authority and the Southern California Metropolitan Water District or be groundwater.
- Service may be supplied to a wide array of land uses in the urbanized portions of the County or be restricted to a single residential subdivision.
- The staffing of local districts ranges from a significant number of experienced professionals to a single part-time employee or contract with a private operator.

- Some districts have broad financing options, existing bonded debt and receive property taxes while others depend on user and connection fees.
- While the larger districts have extensive and often complex network of facilities, the less populated districts usually manage a more limited and simple system.

Private Sector (Investor Owned Utilities/Mutual Companies)

According to an American Water Works Association report, there were nearly 161,000 water systems in the United States in 2003. Approximately 97% of these systems serve communities of less than 10,000 people. Investor-owned water utilities serve more than six million Californians and what distinguishes these utilities from their government-owned counterparts is their need to meet the expectations of both shareholders and customers. According to industry representatives, private water companies must operate efficiently and effectively, reinvest in their operation, provide top-notch customer service and deliver a reasonable return to investors.

The National Association of Water Companies (CWA) is a consortium of 52 investor-owned water utilities providing water service to customers throughout California. Investor-owned companies are divided into the following categories:

- Class A Companies-More than 10,000 service connections.
- Class B Companies-Between 2,000-10,000 service connections,
- Class C Companies-Between 500-2000 service connections,
- Class D Companies-Less than 500 service connections.

Prominent Class A Water Companies include the California Water Service Company, California American Water, Great Oaks Water Company, San Gabriel Valley Water Company, San Jose Water Company, Santa Clarita Water Company, Southern California Water Company, Suburban Water Systems and the Valencia Water Company.

Table 3 provides a summary of investor-owned companies currently providing service in California.

California American Water Company, a subsidiary of American Water, is the only Class A Company currently operating in San Diego. American Water serves 20 million customers in 27 states, 4 Canadian provinces, Puerto Rico and South America. Over 8,000 employees provide water, wastewater and other related services. Cal American, in addition to their ownership in the South Bay, also contracts with the Descanso Community Services District. The district was formed in 1982 to purchase the water system owned by the Descanso Park Water Company. Acquisition of the system by residents was completed thee years later. The only other investor-owned provider in San Diego County is the Live Oak Springs Water & Power Company.

A number of small non-investor owned mutual water companies, which are active in San Diego County, fall within the purview of the Californian Department of Health-Office of Drinking Water/County of San Diego Public Health Department. Two mutual water companies (Lake Morena Views and Oak Shores) have been operating near Campo for several decades. The two communities have a combined total of approximately 310 service connections.

While many advocate private ownership and operation, others observers are more critical in their assessment of private water purveyors. An article “H2O to Go Sustainability Options for Small

Water Utilities" by Tim Bradley and Bob Kelly notes that, "Over time some water utilities – particularly small systems—become incapable of maintaining financial, technical or managerial capacity, or they receive cripplingly low levels of rate relief from regulatory agencies." These "unsustainable systems" exist in uncounted numbers. It is the authors contention that States should consider all possible long-term solutions, including incentive, tax relief, a utility emergency fund, subsidies, and possibly takeover.

Sewer Service

Although some residents use individual septic tanks, the ownership, operation and maintenance of community sewer systems are exclusively provided by public agencies in San Diego County. Although privatization of sewer systems may be found in various portions of the nation and other portions of state, the San Diego Regional Water Quality Control Board policies require that community systems (five or more dwelling units) must be publicly owned. The Regional Board requires a report of waste discharge to be filed for all proposed waste discharges that involve the use of community sewerage systems. Before the Board will consider the report of waste discharge to be complete, the following requirement must be met: "A public entity must assume legal authority and responsibility for the ownership, operation and maintenance of the proposed wastewater treatment and disposal system."

Existing special districts providing sewer service in the San Diego region include:

- Seven County Sanitation Districts,
- Seven Municipal Water Districts,
- Three County Water Districts, and
- One California Water District.

OPTIONS

Five options can generally be identified to provide sewer and water service in Campo Hills and the Campo Service Area.

Option 1: Status Quo

Under this scenario, the County of San Diego Public Works Department would continue to own, operate and maintain both the water and sewer system in both Campo Hills and the Campo Area.

Option 2: County Service Area No. 112

County Service Area No. 112 (Campo) was formed in 1983 to finance the operations of the Campo Volunteer Fire and Rescue Department, which provides structural fire protection and emergency medical service within an approximately 47-square mile area. County service areas are permitted to provide water and wastewater services. CSA No.112 would be required to obtain LAFCO approval of an expansion of latent powers to provide sewer and water services. It is anticipated that the boundaries of the sewer and water service area would be smaller than the total area contained within the CSA. Historically, the County of San Diego has not used County Service Areas for this purpose, choosing to oversee sewer services through County Sanitation Districts and allowing independent special districts and cities to provide water service.

Option 3: Formation of Independent Special District

As shown in Table 1, a number of independent special districts can potentially provide both sewer and water services. The most likely candidates would include a County Water District, Irrigation District, Municipal Water District and Public Utility District

Option 4: Private Ownership of Water System Only (Investor-owned or Mutual Water Company)

As previously discussed, the San Diego County Regional Water Quality Control Board does not allow private ownership of sewer treatment plants. The water system could, however, be potentially transferred to a private investor-owned company or a mutual water company could be formed. Under Option 4, sewer service could continue to be provided by the County of San Diego directly or formation of an independent or dependent district could be considered.

Option 5: Formation of Dependent District (County Sanitation District or County Service Area)

While the County of San Diego has not historically been responsible for water systems (except in Campo), the Department of Public Works has provided sewer treatment and conveyance through several County Sanitation Districts. The enabling acts of both County Sanitation Districts and County Service Areas allow both these forms of special districts to provide both water and sewer service.

Rating the Options

The following criteria were developed to evaluate governance options:

- Ease of Formation
- Governing Board Options
- Ability to Provide Additional Services
- Experience
- Ability to Coordinate Growth
- Fiscal
- Acceptance by Regulatory Agencies
- County Liability
- Ability to Address Future System Needs
- Community Acceptance

Table 4 provides a summary evaluation and ranking of the various options with the following results:

Rank	Option
6	County Sanitation District
7	Status Quo
8	Private Ownership or Mutual Water Company
9	Independent Special District
10	Use of CSA No. 112

Formation Process for Options

Option 1: Status Quo

The maintenance of the status quo would not require any additional involvement from other governmental agencies.

Option 2: Use of CSA 112

The San Diego LAFCO Commission would be required to approve activation of latent powers and a new sphere of influence to permit CSA No. 112 to provide water and sewer services.

A proposal to provide new or different services or class of services must be made by the adoption of a resolution of application by the legislative body of a special district, in this instance the County Board of Supervisor acting on behalf of the CSA. The district would need to provide a plan for services that must include:

- The total estimated cost to provide the new or different function or class of services;
- The estimated cost of the new or different function or class of service to customers;
- An identification of the existing providers and the potential fiscal impacts to the customers of the existing providers;
- A plan for financing the new or different function or class of service; and
- Alternatives for the establishment of the new or different function or class of service.

LAFCO conducts a public hearing and reviews and approves or disapproves the proposal with or without amendments, wholly, partially, or conditionally. At the hearing, the Commission may restrict the provision of the new or different functions to a geographically specific area within the district.

Option 3: Independent Special District

A proposal to form an independent special district is also subject to LAFCO review and approval. The Commission is required to determine whether existing agencies can feasibly provide the needed service in a more efficient and accountable manner.

The principal acts under which independent special districts are formed vary in the procedures that must be followed. Appendix A contains excerpts from the LAFCO Procedures Guide that

provide a summary of the formation process for those independent special districts that could be considered potential candidates to assume sewer and water services in Campo.

A new independent special district would generally go through the following steps:

- Initiation- Requirements differ according to the principal act but either a petition or resolution would be necessary.
- Application Submittal- A Plan for Providing Services will need to accompany the LAFCO application which identifies the statutory section under which the formation would occur, a description of the services and justification, the level and range of services, timing, possible improvements, an operating budget including revenues and expenditures and a discussion of alternative boundaries and rationale for the proposed boundaries.
- Commission Proceedings-LAFCO staff will conduct an evaluation and prepare a staff report. The Commission will hold hearing to review the proposal and will receive oral and written testimony. If the formation is approved, the Commission will determine final boundaries, an appropriations limit and any terms and conditions of approval.
- Conducting Authority- Generally the Commission serves as the conducting authority for the formation of a district except in specific identified cases. The range of actions that may be taken by the conducting authority depends upon the principal act under which a formation is required. Different protest provisions exist, which allow either residents or registered voters to either force a formation to an election or terminate the proposal.

Option 4: Private Ownership

A detailed submittal describing the capabilities of a private-investor owned company to provide water service would need to be reviewed by the California Public Utilities Commission-Water Division. After review by a panel of Administrative Law Judges, the CPUC approves, approves with conditions or denies the request.

A mutual water company (defined as not having outside investors) must receive approval to operate through the State Department of Health Services similar to any other water system.

Option 5: Dependent Special District

Appendix A provides a summary of the principal acts for County Sanitation Districts and County Services Areas. The procedures for formation are similar for both dependent and independent special districts. LAFCO may form a CSA without notice, hearing or an election, if the Commission has received written consent to the formation signed by all of the landowners within the proposed service area.

It is important to note the protest provisions for CSA and County Sanitation District formation. At the conducting authority hearing, the Commission shall terminate the proceeding for formation of a County Service Area, if citizens living in the district present a written protest signed by more than 50% or more of the registered voters, or signed by the owners of 50% or more of the value of the land and improvements in the proposed district. Otherwise, the Commission may choose to terminate the proceedings or adopt a resolution ordering the formation without an election or ordering the formation subject to an election.

The California Government Code requires that a County Sanitation District be terminated if written protests are submitted by owners of more than 50% of the total assessed value of real property within the proposed district. An election on the formation of the proposed district is not required unless written objections are signed by 5% of the voters registered in the district (if the district contains less than 2,001 registered voters).

ROLE OF REGULATORY AGENCIES

Implementation of any the above options will likely involve one or more of the following regulatory agencies. Refer to Appendix B for a summary of each agencies role:

- Local Agency Formation Commission
- Public Utility Commission
- San Diego Regional Water Quality Control Board
- California Department of Health Services

REVENUE AND RATE SETTING ISSUES

Campo Service Area Water

The Campo Service Area private customers currently pay for water at the rate of $1.70 per 100 cubic feet of consumption under 2,000 cubic feet per month and $2.55 per 100 cubic feet over 2,000 cubic feet per month. At this rate the customers are paying about 14 percent of the operating cost ($26,300) while consuming approximately 34 percent of the water. The County pays the balance of the operating costs ($115,100) for the water used at County facilities. This system currently does not have an operating reserve or a capital improvement reserve.

County staff is proposing to increase Campo Service Area private customers to a full cost recover rate by FY 2009-10. This rate would be $5.50 per 100 cubic feet of consumption under 2,000 cubic feet per month and $8.00 per 100 cubic feet over 2,000 cubic feet per month. The addition of a $75 monthly base charge would ensure that all property owners pay their fair share for having a water system available to use even if they only consume low amounts of water or their property is vacant for portions of the year. The staged implementation at a rate increase of $25 per year will allow the private customers time to adjust their household budgets to accommodate the higher utility costs.

County facilities would continue to pay the balance of the revenue needed to fund the Campo Community Water System. This rate structure appears to be adequate for operating expenses and the establishment of appropriate operations and capital improvement reserves.

Campo Hills Water

Monthly flat rates of $150 per residence have been adopted for the Campo Hills system. Based on the fact that the Developer pays for the same rate for all unsold lots, the adopted monthly flat rate appears to be adequate for the orderly operation and maintenance of the utility.

Campo Service Area and Campo Hills Sewer

As stated earlier, the current residential monthly flat rate is either $16 or $28 per month in the Campo Service Area. The flat rate for sewer service in Campo Hills is $55 per month. County staff is proposing bring the Campo Service Area up to $55 per month over a five-year period at a rate increase of 28% per year. It should be noted this rate does not fully fund the capital improvement reserve that could result in the need for one-time funding for unanticipated capital repairs or replacement.

POTENTIAL SALE OF CAMPO UTILITIES

This was to provide a discussion on the potential for the sale of the Campo sewer and water utilities. As discussed earlier, the San Diego Regional Water Quality Board does not allow for the private ownership of sewer utilities. However, except for procedural requirements as discussed earlier in this report, the County could sell or transfer the assets of the Campo Service Area and Campo Hills water systems.

The sale of any utility is based on the perceived value of that utility and the potential for long-term profits. The Campo Service Area water is an aging system with the location of may of the distributions lines to County facilities unknown. The system currently has no funds set aside for capital improvements or operational reserves. Private customers current do not pay for full cost recovery. For these reasons, it may be very difficult to pursue the sale of the system unless the County is willing to contribute a considerable sum of money to offset these deficiencies.

In the following example, the Los Trancos County Water District was sold to the California Water Service Company for 4% of the rate base. This water district is similar to the Campo system with a very small customer base. The Water District had to make $3 million in capital improvement to make this sale feasible.

Seller: **Los Trancos County Water District**

Buyer: **California Water Service Co.**

Service: **275 customers**

Cost[1]: **$365/hookup ($100,000)**

The Los Trancos County Water District is located in the rural foothills near the Town of Portola Valley. It served a residential population of nearly 1,260 people (275 service connections) and encompassed approximately 4.5 square miles. The annual budget was approximately $400,000. The District has no employees and contracts out maintenance, billing and operations. Recently, the District replaced all of its pipes, pumps, and tanks, which amounted to approximately $3 million in capital improvements.

[1] While the purchase price per hookup calculates at $364 ($100,000 divided by 275 accounts), in actuality, the cost of the utility is approximately $3,100,000, equating to a purchase cost of $11,273 per hookup.

Because of the high cost of running the small water provider, in March 2003, the board decided to sell its assets to California Water Service Co., which serves most of the residents of Portola Valley and many in Woodside. It was expected that through the sale, monthly service charges would decline from $25 to $10 and the average commodity charges would decrease from $8 per unit to $2 per unit.[2]

During a telephone interview with Darren Duncan, Superintendent of the Bear Gulch District Field Office of California Water Service Co., he said that this sale was a little different from most of their acquisitions. Since the District had recently replaced all of its pipes, pumps, and tanks, which amounted to approximately $3 million in capital improvements and the customers were paying extremely high rates for service and water use, the sale was structured such that the $100,000 purchase was based on a subsidy of future water rates. In other words, Los Trancos customers' rates would be reduced to California Water's current rates in the area. In exchange, the company received "new" assets. Mr. Duncan said that in some cases, rates were as high as $18 per unit of water, which will now be reduced to approximately $2 per unit.

The District and water company have reached an agreement, which has yet to be approved by the California Public Utilities Commission, although approval is expected in March 2005.

Valuation of Utilities

One of the major steps in a proposed sale or purchase of a system is the need for an appraisal or valuation of the system. The typical appraisal considers three basic approaches to determination of value: the Cost Approach, the Income Approach, and the Market Approach. The typical valuation study may use one or more of these approaches, depending on the circumstance of the purchase or sale. A brief description of each option follows.

- Cost Approach – This approach is premised on the theory of substitution. That is a buyer would be willing to pay no more for the subject utility than what it would cost to replace it, less an allowance for depreciation. Three cost methods are normally used: replacement cost new, reproduction costs, and original costs.

  Table 5 summarizes the "original costs' of the Campo Hills water system. This system was completed in 2004. To account for the difference between the original costs and the present value of the system the "reproduction cost' approach is often used. Reproduction cost is an estimate of the cost to replicate the assets, as they exist today, without considering any technological improvements or regulatory modifications. A "trend factor" such as the Engineering News Record Construction Costs Index for Los Angeles (ENR Index) is applied to the original cost to construct the asset. Since 2004 the ENR Index has increased by 5%. To bring the original costs to reproduction costs the value of each class of assets is increased by 5%.

[2] Excerpts from The Almanac, "Los Trancos water may sell district assets", March 5, 2003

Description	Useful Life	Original Total Cost	Reproduction Total Costs	Annual Depreciation
10-inch pvc	20	$ 99,337	$ 104,098	$ 4,966.85
8-inch pvc	20	$ 153,860	$ 161,235	$ 7,693.00
6-inch pvc	20	$ 16,722	$ 17,524	$ 836.10
10-inch gate valves	20	$ 8,400	$ 8,803	$ 420.00
8-inch gate valves	20	$ 14,450	$ 15,143	$ 722.50
6-inch gate valves	20	$ 1,950	$ 2,043	$ 97.50
Fire hydrants	20	$ 43,700	$ 45,795	$ 2,185.00
Blow off assemblies	20	$ 9,500	$ 9,955	$ 475.00
Air release valves	20	$ 6,000	$ 6,288	$ 300.00
Water service	20	$ 115,000	$ 120,512	$ 5,750.00
Pipe fittings, appurtenance equipment	20	$ 2,100	$ 2,201	$ 105.00
Pumps	20	$ 61,580	$ 64,532	$ 3,079.00
Piping to well heads	20	$ 64,960	$ 68,074	$ 3,248.00
Interconnect	20	$ 50,000	$ 52,397	$ 2,500.00
Emergency generator	20	$ 25,000	$ 26,198	$ 1,250.00
Pump Building	40	$ 156,300	$ 163,792	$ 3,907.50
Wells	40	$ 106,620	$ 111,731	$ 2,665.50
Small Storage Tank	40	$ 26,600	$ 27,875	$ 665.00
Main Storage Tank	40	$ 159,700	$ 167,355	$ 3,992.50
Total		$ 1,121,779	$ 1,175,549	$ 44,858.45

Annual depreciation based on the useful lives of the assets is also shown on Table 5. It appears that the asset depreciation information provided by County staff accelerates depreciation of the utility's assets, projecting a 20-year useful life for most of the distribution system and 40 years for buildings, wells, and tanks. The County may wish to revisit this. GASB 34 suggests that the useful life of an operations building is 75 years and minor pipelines are 50 years. If actual useful life of the assets with maintenance can be extended, the annual depreciation expense would decrease and thus the facilities would maintain a higher value over time. This is important not only if the County was considering selling the utility but also if the County wanted to use the book value in the system as a basis for securing required financing of future facilities as many agencies do.

Based on the original cost approach the value of the Campo Hills water utility is $1,121,779. If brought to current value the potential sales price would be $1,175,549. Depreciation could be taken off either value to represent one year's wear and tear. The original cost approach is the valuation method used by PUC regulated utility properties. This is because the earnings of a regulated utility are based largely on the current book investment (i.e. original cost less depreciation) in the utility plant. However, original cost less depreciation or book value normally does not reflect the current fair market value of the utility property.

Unfortunately the County staff was unable to locate the original cost information on the Campo Service Area water system. If the County was considering selling the Campo Area system a more appropriate valuation method might be the "replacement cost new" approach. Replacement cost new represents the current most economical design and construction costs that could replace services currently provided by the assets being valued.

- Income Approach – This approach to developing an opinion of value considers value in relation to the present worth of future benefits derived from ownership. This is the

method that was used too value the Los Trancos transaction. The sales price was determined by a percentage of the value of the future customer base.

- Market Approach – The market or comparable sales approach is primarily applicable to property being appraised that can be readily compared to similar property and where a number of comparable properties have recently been traded. This approach is commonly used for residential properties but would be difficult due to the lack of sales of utilities. As discussed in the next section our review only produced nine utility sales in California since 2001.

Recent Sales of California Utilities

We reviewed recent water utility sales in California and found only nine (9) that had occurred since 2001. The price per connection ranged from Yuba Investment Company's sale to Browns Valley Irrigation District in which the owner had to pay $50,000 or $2,778 per connection to a nearby sanitation district to take the utility off of their hands (The $50,000 represented the estimated deferred maintenance as well as annexation costs) to $11 million or $6,936 per connection where the Montara Sanitary District purchased the Montara Water System from California-American Water.

This review showed that the majority of these sales have been where public agencies have exercised their right of eminent domain and either purchased the water system from a private utility or forced a private utility to concede to their demands. These include the Montara Water System, the Felton Water System, and the City of Thousand Oaks whose case studies are included below.

Seller: **Montara Water System**
(Owned by California-American Water, subsidiary of American Water Works Company, acquired by Thames Water, a subsidiary of RWE, Germany)

Buyer: **Montara Sanitary District**

Service: **1,675 Customers - Montara, Moss Beach and surrounding communities**

System Cost: **$6,725/hookup ($11.1 million)**

In January 2002, American Water Works Company – California American Water purchased the Montara water system from the Citizens Utilities Company of California who had owned the water system for more than 60 years. In September 2002, American Water Works was acquired by Thames Water, a subsidiary of German-owned utility giant, RWE, one of the three largest water companies in the world.

With voter-approved bond money ($19.0 million approved in a November 2001 election by a margin of 81 percent), the Montara Sanitary District sought to take over the water district by the power of eminent domain and in May 2002, Montara filed in Superior Court to condemn the system.[3]

[3] Excerpts from "Water a Hot Commodity U.S. Waterworks Lure Overseas Investors" SF Chronicle, 1dec02, by Maria Alicia Gaura

On December 19, 2002, the CPUC ordered the divestiture of the Montara/Moss Beach system as part of its approval of the change of ownership between American Water and RWE. On May 29, 2003, an agreement was negotiated as a result of a mandatory court ordered settlement conference held in San Mateo Superior Court.[4]

At a Special Meeting of the Montara Sanitary District on May 29, 2003, the Board of Directors unanimously approved the Settlement and Asset Purchase Agreement with Cal-Am, which allowed MSD to take possession of the water system and all its assets on August 1, 2003 for a price of $11,097,000.[5] The District sold $17.5M in bonds to finance the acquisition and rehabilitation of the water system.

Seller: **Felton Water System**
(Owned by California-American Water, subsidiary of American Water Works Company, acquired by Thames Water, a subsidiary of RWE, Germany)

Buyer: **San Lorenzo Valley Water District (SLVWD)**

Service: **1,315 customers**

Estimated Cost: **Pending; $4,500-$15,200/hookup ($6-20 million)**

The sale of this water utility is still pending. The local community formed FLOW (Friends of Locally Owned Water) organization, who estimates that the system, purchased by Cal Am in 2002 for $6.5 million, is currently worth $6-$9 million. Cal Am estimates the system value around $20 million. The local community has pursued public ownership of the water system due to pending rate increases and their views on private ownership of water.

In April 2003, at the request of the local community, the San Lorenzo Valley Water District (SLVWD) took the first step toward acquiring the privately owned system in Felton. The process involved:

- A public hearing on whether the water district's sphere of interest should be expanded to include Felton.
- A vote by Felton residents on whether to authorize the formation of an assessment district to pay for the water system.
- Another public hearing on whether the water district should be allowed to annex the area served by the water company.

In September 2003, the Local Agency Formation Commission (LAFCO) approved the sphere of influence to include the Felton system.

Under California Law, in a condemnation proceeding, the jury ultimately decides the fair market value of the utility. FLOW expects that in May or June 2005, they will vote on authorizing the assessment district to pay for the water system.

[4] Excerpts from California American Water Press Release, May 20, 2003 (www.feltonwaterfacts.com)
[5] Excerpts from the May 30, 2003 Press Release "Montara Sanitary District Approves Purchase of Water System"

CONCLUSIONS

1. The County's existing role directly providing water and sewer services to portions of Campo since the acquisition of the former Camp Lockett's sewer and water infrastructure in 1950 is unique within the San Diego region
2. Members of the public largely misunderstand the County's method of providing these two essential services.
3. The County has a vested interest in maintaining adequate service because of the presence of county departments in Campo.
4. The County is currently subsidizing the costs of serving 45 residential and commercial water and sewer customers
5. Both the Campo service area water and sewer systems are under-funded and lack adequate operation and capital improvement reserves.
6. Growth (and the role that public infrastructure plays) will continue to be a major issue in Campo.
7. Two projects (A Children's Village and Star Ranch) are being proposed in Campo. Both developments are considering construction of new water and sewer systems. It is unknown if either project will request formation of a special district or ask the County to provide sewer and/or water services in the same manner as Campo Hills.
8. The Campo Hills/Campo Service Area has a number of existing and potential problems (need for a rate subsidy, uncertainty about the condition of infrastructure, controversy regarding expansion to serve possible future development) that will be present regardless if the County continues in its' current capacity or another entity becomes responsible for providing sewer and water service.
9. Four general options exist: Status Quo, Expansion of Latent Powers for County Service Area 112, Formation of an Independent Special District, Privatization of Water Service and Formation of a Dependent Special District.
10. Sale of the service area water system to an investor-owned utility or the establishment of an independent district would likely require the County to make a significant investment in upgrading the water system and/or providing a substantial financial contribution to make the sale feasible or the transfer attractive to the local community.
11. The San Diego Regional Water Quality Control Board requires sewer treatment plants be publicly owned, therefore privatization of this service is not possible.
12. The formation of either an Independent Special District or Privatization of Water Services may not be feasible at this time due to lack of a fully implemented rate structure based on full cost recover from all users, lack of operation and capital improvement reserves, unknown system operational condition, and the small size of the system with only questionable growth potential.
13. The formation of a County Sanitation District may be the most feasible of the options and would formalize the operation of the water and wastewater systems with the Board of Supervisor serving as County Sanitation District Directors. This organizational structure could limit the County's general funds liability for system operations and potential claims.
14. Formation of most types of special districts including a County Sanitation District will require the support of residents, due to the protest provisions contained in State law.

RECOMMENDATIONS

1. Prepare an as-built survey of the existing water and sewer system to determine location, condition and need for repair and upgrades.
2. Adjust Campo community water and sewer rates to fiscal stability; achieve full-cost recovery from non-County residential and commercial users; and fund adequate operation and capital improvement reserves, if possible.
3. Confirm that County government would be better served from a liability standpoint by providing water and sewer service through a county sanitation district rather than continuing the status quo.
4. If a full cost recovery rate schedule is implemented, initiate discussions with investor-owned water companies to determine if any interest exists for privatization. Explore if the two mutual water companies in Lake Morena would consider joining with Campo to transfer responsibility to a common private investor-owned water company.
5. Determine if support from Campo residents would be present to operate an independent special district or support formation of a dependent special district.
6. Ensure that any proposed changes from the current institutional arrangement for providing sewer and water service in Campo are consistent with existing County policies and evaluated against the pending General Plan 2020. Any solutions should comprehensively consider both existing and future demand to avoid creating a highly fragmented system of multiple sewer treatment plants and service providers.

APPENDIX A

SUMMARY OF SPECIAL DISTRICTS ENABLING ACTS

California Water District

(Attachments in PDF file)

APPENDIX B

ROLE OF REGULATORY AGENCIES

APPENDIX B

ROLE OF REGULATORY AGENCIES

Local Agency Formation Commission

In 1963, State Law created Local Agency Formation Commissions (LAFCO to assist the Legislature in promoting orderly development and in balancing development with competing state interests of discouraging urban sprawl, preserving open space and prime agricultural lands, and extending government services efficiently. Proceedings for changes of organization of special districts or cities are subject to LAFCO review, pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code 56,000 et seq.).

The San Diego LAFCO are responsible for coordinating logical and timely changes in local governmental boundaries, including annexations and detachments of territory, incorporation of cities, formations of special districts, and consolidation of districts as well as reviewing ways to reorganize, simplify, and streamline governmental structure. A LAFCO has countywide jurisdiction in carrying our responsibilities – however they are independent of county government.

The San Diego LAFCO is composed of an eight-member commission consisting of:

- Two members of the County Board of Supervisors, chosen by the Board;
- Two members representing cities in San Diego County chosen by a city selection committee including the mayors of each city in the county;
- Two members representing the independent special districts in San Diego County, chosen by and independent special district selection committee composed of the presiding officer or a designated alternate board member from each independent special district in the County,
- One member of the San Diego City Council, chosen by that body; and
- One public member, chosen by the other members of the Commission.

If the County of San Diego or Campo residents decide to pursue formation of a new public agency or expand the powers of the existing county service area, the San Diego LAFCO would provide an oversight function. An explanation of the procedures that would be necessary to pursue LAFCO approval is described in a later section of this report.

Public Utilities Commission

The Public Utility Commission (PUC) regulates investor-owned water and sewer system utilities only (sole proprietorships, partnership or corporation). It is estimated there are approximately 170 privately owned for-profit water utilities in the state, of which about 75% are relatively small companies that serve fewer than 500 connections. Almost every County in the state is served in part by a private water utility. Responsibilities of the PUC include overseeing the rates, service, water quality and operational safety of investor-owned water utilities:

The PUC does not have jurisdiction over municipal utilities or districts. Mutual water utilities (corporations in which each customer owns one share of stock) or companies owned by homeowner associations are also exempt, if they serve only their stockholders or members and not outside parties.

The Water Division of the PUC supports the Commission by investigating water and sewer systems service quality issues and analyzing and processing utility rate change requests. Water Division auditors, engineers, analysts and financial experts prepare testimony and analytical reports and work directly with utility management to track and certify compliance with Commission requirements.

The Division is divided into two branches:

- The Audit and Compliance Branch (ACB)-ACB provides financial information, audits and investigates compliance with Commission orders upon request. It is made up of auditors and financial analysts and manages the utilities' Annual Reports and other financial data. It sets utilities' return on equity and creates audit reports that assist ORA in its proceedings, as well as reviewing requests for approval of long term debt. It performs internal audit of the Commission and assists other Commission Divisions in auditing other industries.
- The Water Branch (WB) - WB aids the Commission in regulating rates and services of water and sewer system utilities with less than 10,000 service connections and monitors compliance with Commission orders for all utilities. It processes advice letters which utility may file to request a minor change in rates or another action required of the Commission but which does not need a formal proceeding. WB provides advisory support to the Administrative Law Judge Division and to the Assigned Commissioner in formal proceedings. WB also issues advisory reports and studies.

San Diego Regional Water Quality Control Board

Municipal wastewater in the San Diego region consists primarily of domestic sewage and minor quantities of industrial wastes. The Board regulates facilities to control municipal wastewater including collection systems, pumping stations, treatment plants, effluent storage tanks, ponds, subsurface disposal systems, recycled water distribution, storage systems and ocean outfalls. These facilities are owned and operated by public entities such as cities, counties, special districts, other state agencies, and the federal government. Collectively they are referred to by the term Publicly Owned Treatment Works (POTW). In the San Diego Region, the technical unit responsible for making sure that these facilities comply with all state and federal water quality laws and regulations is the POTW Compliance Unit. The POTW Compliance Unit is an integral part of the Regional Board's core regulatory program. The unit is responsible for a large portion of the following programs:

- Regulation of point source waste discharges from POTWs to surface waters (NPDES program),

- Regulation of point source waste discharges from POTWs to land which could impact groundwaters (WDR program),
- Production, purveyance, and use of recycled water within the Region (water recycling program),
- Prohibition of sewer overflows from sewage collection agencies (part of the WDR program), and requests for funding of projects using monies from the State Water Resources Control Board (State Board) account (State Revolving Fund loan program).

In addition to working cooperatively with the regulated community, staff in the POTW Compliance Unit work closely with other regulatory agencies including the USEPA, County health departments, the State Health department, and the State Board to ensure that all of these agencies' concerns are adequately addressed.

Notification would need to be given to the Regional Board if the responsibility for operating the Campo sewer treatment plant is transferred to a new public entity.

California Department of Health Services

The California Department of Health Services (DHS) administers a safe drinking water regulatory program for all publicly and privately owned water systems (over 15 or more service connections). DHS directly oversees all public water supply systems exceeding 200 connections. Under the provisions of Section 116330 of the California Health and Safety Code, primacy has been delegated to 35 local primacy agencies (LPAs) including the County of San Diego for the regulation of public water systems serving fewer than 200 service connections. LPAs are county environmental health jurisdictions that have applied for and were granted regulatory authority over a portion of the public water systems in their county.

The Federal Safe Drinking Water Act of 1996 was signed into law in part because of the significant problems of small public water systems (SWS) providing safe, reliable drinking water to their customers. The SDWA emphasized prevention and assistance - both financial and technical - to resolve the problems. The Act includes mandates to the states to deal with SWS concerns through prevention of new non-viable systems and development and implementation of a comprehensive strategy to assist public water systems (PWS) in obtaining adequate capacity. It also includes the resources and flexibility to accomplish the end objective.

In a comprehensive report prepared for the Legislature in January 1993, DHS concluded that SWS had a significant problem complying with drinking water standards. Thus, populations served by these systems were placed at greater public health risk than the general population. The report concluded that (1) SWS lacked adequate technical and financial capacity to assure the reliable delivery of a pure, safe, and adequate water supply, and (2) the state lacked an effective institutional framework to provide technical and financial assistance and promote regional solutions to public water supply needs.

In late 1997, Senate Bill 1307 became law, enabling the state to effectively implement the provisions of the federal SDWA. This statute establishes a new financial assistance State Revolving Fund (SRF) program, which enables the state to create a comprehensive technical

assistance program for small systems. This legislation also prevents the formation of new PWS (either through creation of a totally new system or change of ownership) unless that system has been certified by the State as having adequate technical, managerial and financial (TMF) capacity to ensure safe, reliable drinking water on a long-term basis.

It is anticipated the State Department of Health Services will eventually be directly responsible for regulating water service in the Campo Hills development; the Campo Area including the area included in County operations and the 45 connections will likely remain under the jurisdiction of the County Health Department with DEH oversight.